

Message Text

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ACTION NEA-16

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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 3101

C O N F I D E N T I A L TEL AVIV 3871

E.O. 11652: GDS

TAGS: ECON, ELAB, IS

SUBJ: GOVERNMENT'S ANTI-INFLATION PROGRAM

REF: TEL AVIV 3798 AND 3847

1. SENIOR MINISTRY OF FINANCE OFFICIAL HAS INFORMED ECONOMIC COUNSELOR THAT ISRAELI CABINET WILL MEET TOMORROW TO CONSIDER ADDITIONAL ANTI-INFLATION MEASURES. FOLLOWING MEASURES, WHICH WILL BE PRESENTED AS ALTERNATIVE TO REJECTED PROPOSAL TO DEFER INCREASE IN COST-OF-LIVING ALLOWANCE, ARE EXPECTED TO BE APPROVED BY MINSTERS:

A. A NEW COMPULSORY LOAN OF THREE PERCENT ON WAGES AND ON EARNINGS OF SELF-EMPLOYED;

B. TAX OF THREE PERCENT ON EMPLOYER'S WAGE BILL.

2. MINISTRY OFFICIALS MET SEPARATELY THIS MORNING WITH REPRESENTATIVES OF HISTRADRUT AND EMPLOYERS ASSOCIATION. NEITHER GROUP IS HAPPY ABOUT THESE MEASURES BUT SOURCE BELIEVE THAT THEY WILL GO ALONG. FOR EXAMPLE, SOURCE SAID THAT HISTRADRUT, RATHER THAN REJECTING PROPOSAL OUT OF HAND, IS BARGAINING TO REDUCE TERM OF LOAN FROM SEVEN TO FIVE YEARS. IN MINISTRY'S OPINION, THESE TWO MEASURES WILL SOAK UP APPROXIMATELY SAME AMOUNT OF
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PURCHASING POWER AS WAS EXPECTED FROM REJECTED COST-OF-LIVING

DEFERMENT. ONE DRAWBACK, HOWEVER, WITH REGARD TO EMPLOYER'S TAX IS THAT MOST EMPLOYERS WILL RECOVER TAX BY MEANS OF HIGHER PRICES.

3. REFERRING TO GOVERNMENT'S TAKE-OVER OF ISRAEL-BRITISH BANK (SEE TEL AVIV 3847), SOURCE SAID THAT THIS "SCANDAL" COULD NOT HAVE HAPPENED AT WORSE TIME. HE FEARED THAT FURTHER INVESTIGATION OF BANK'S COMMODITY AND FOREIGN EXCHANGE OPERATIONS WOULD REVEAL LOSSES IN "HUNDREDS OF MILLIONS OF ISRAEL POUNDS". HE SAID THAT PEOPLE ARE ALREADY ASKING WHY GOVERNMENT IS DEMANDING HIGHER TAXES AT A TIME WHEN IT IS PAYING LARGE SUMS TO SAVE A PRIVATE BANK FROM ITS OWN MISTAKES. HE ADDED THAT WHILE GOVERNMENT SHOULD BE ABLE TO OBTAIN KNESSET'S APPROVAL OF THESE ADDITIONAL ANTI-INFLATION MEASURES, IT WOULD PROBABLY NOT HAVE AS EASY SAILING AS WHEN ORIGINAL ANTI-INFLATION PACKAGE WAS PRESENTED LAST WEEK.
VELIOTES

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